

June 2009

Kent County Council

Internal Audit Annual Report 2008/09 – Draft



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I. Introduction

Purpose of this report

This report summarises the work that the Council's Internal Audit and anti-fraud service has undertaken during 2008/09. It also highlights the key issues with respect to internal control, risk and governance arising from that work.

Overview of work done

The original Plan for 2008/09 included a total of 61 projects. We have communicated closely with senior management throughout the year, to ensure that the projects *actually* undertaken continue to represent the best use of our resources in the light of new and ongoing developments in the Council.

As a result of this liaison, some changes were agreed to the Plan during the year. Some projects have been added to or deleted from the Plan, others have been carried forward from the previous years plan, and the timing of a number of others has been changed. Some of our planned audit work has been substituted for advisory work. Details of the changes to the audit plan were reported to the Governance and Audit Committee on 4 March 2009. The total number of projects undertaken in 2008/09 was 73, excluding the advisory work undertaken. At the time of preparing this report (early May), the position on these was as follows:

- 56 – final report/assurance work completed
- 17 – in draft and in the process of being finalised

During 2007/08, Internal Audit undertook a Council-wide risk and control mapping exercise to streamline the audit planning process and ensure that the assurance activity was aligned to the business and corporate risks.

The risk and control mapping exercise enabled management to assign a score both to the inherent and the residual level of risk within each area of the business. By identifying areas of risk where management believes there to be a high level of control, we were then able to focus our internal audit resource to provide assurance that those controls were operating effectively during the year, or to highlight where improvements were required. This exercise was extended in 2008/09 to identify ICT risks and controls and to identify 'risk' owners. The risk mapping exercise was used as the basis for the 2008/09 plan and helped inform the 2009/10 audit plan.

Internal Audit also undertook 23 investigations relating to potential fraud by staff or third parties, none of which were significant to the control and risk framework for KCC.

Internal audit performance

Members receive regular reports on Internal Audit's performance against a range of indicators throughout the year. Additional key performance indicators were introduced in June 2008. For those measures where information is available, performance is shown below:

Performance Indicator	Target	Actual
Effectiveness		
% of recommendations accepted	98%	97%
% of recommendations implemented	90%	80%
CPA/CAA score for Internal Control	Level 4	Level 3
Efficiency		
% of plan delivered	95%	94%
% of available time spent on direct audit work	80%	88%
% of draft reports completed within 10 days of finishing fieldwork	89%	94%
Preparation of annual plan	By March	Met
Periodic reports on progress	G&A Cttee meetings	Met
Preparation of annual report	Prior to AGS	Met
Quality of Service		
Average Client satisfaction score	70%	93%
Staff Management		
Staff with professional qualifications (including trainees)	60%	64%

The Council's Use of Resources score for Internal Control under Continuous

Performance Assessment (CPA) in 2007/08 was assessed by the Council's external auditors. The Council was scored 3 for each aspect of the internal control judgment. A summary of external audit's key findings that prevented achievement of the target score of 4 are summarised below:

- There has been no risk management training for Cabinet Members other than those who serve on the Governance and Audit committee. Due to the role that the Cabinet has in making key policy and strategic decisions, risk management training is regarded as key for all Cabinet Members
- All strategic policy decisions and PID's include a risk assessment. However, the documents do not include a 'sustainability impact appraisal' section. Despite being identified as an area for improvement in the previous year's Corporate Assessment report, the action to address this recommendation was not undertaken until June 2008 and hence outside the assessment year
- The Council demonstrated how partnerships are monitored by managers during 2007/08, but this did not specifically cover the governance arrangements. Therefore, the external auditors could not satisfy themselves that Council subjects partnership governance arrangements to regular review and updating
- Whilst the Council holds copies of the business continuity plans for key partners and major contractors, there was only limited evidence of review of the viability of these plans
- There is a high level of awareness of fraud raised by Internal Audit through presentations and Irregular Happenings publications. However, it is difficult to demonstrate how staff have acknowledged and accepted their responsibility at all grades across the whole Council
- The external auditors were not satisfied that sufficient steps had been taken by the Council to demonstrate that its staff and contractor organisations had confidence in its whistle-blowing procedures.

Actions to implement recommendations are in progress, for example risk management training is included in the financial training modules available to members. Although not all of the 2007/08 Use of Resources judgments translate exactly to the new Continuous Area Assessment regime, work will be undertaken as far as possible by the external auditors in 2008/09 to assess the extent of progress made.

Objectives of Internal Assurance Projects

The majority of projects we undertake are designed to provide assurance to management on the operation of the Council's internal control environment. Most projects include our recommendations and agreed actions with management that will, if implemented, further enhance the environment and the operation of the controls in practice.

Other projects are designed to provide specific advice and support to management to enhance the efficiency, effectiveness and economy of the services and functions for which they are responsible. Our internal audit work and findings are informed by the investigations and fraud risk management work carried out under the anti-fraud element of the plan as well as the risk management framework of the Council.

Our work plan is derived from management's assessment and evaluation of risks as documented in the corporate and directorate risk registers and, since September 2007, from the detailed risk mapping exercise undertaken across the Council during the summer of 2007. We prepared an internal audit plan based on the risk profile taking into account; discussions with the Chief Executive, Directorate Managing Directors and Resource Directors, Audit Committee Chair and Members and the External Auditors (Audit Commission).

A number of key changes to the planning and delivery of internal audit introduced in 2007/08 have been continued and developed further during 2008/09, including:

- The internal audit partnership established with PricewaterhouseCoopers during 2007/08
- Closer liaison with external audit in planning of material system audits, ensuring that the Audit Commission could place full reliance on the work of internal audit
- Greater integration between risk management responsibilities and the Internal Audit function to ensure that it is aligned to the business and corporate risks.

The risk mapping and planning process carried out during the year identified a small number of areas where further internal audit coverage was required. Those areas have been included within the 2008/09 audit plan and are set out below:

- IT risk and governance arrangements
- Procurement/Contracting

Overall Assessment

The Head of Internal Audit is required to provide the accounting officer with an opinion on the overall **adequacy and effectiveness** of the Council's:

- Risk management
- Internal Control
- Governance processes.

This is collectively referred to as “**the system of internal control**”.

Based on the work that internal audit has performed, and taking into account the individual strengths and weaknesses identified, substantial assurance can be provided on the adequacy of the overall governance and risk management processes and the internal controls at KCC.

Management has responded positively to recommendations made to strengthen controls in the areas that were reviewed and many of these are already being implemented.

The Council has demonstrated its commitment to improving system and processing controls as well as general risk management awareness and effective governance arrangements. We also noted that management accepted and implemented a number of key Internal Audit recommendations and engaged in open and challenging discussions about points raised in our Internal Audit reports. All these points are indicative of an improving system of internal control.

However, the Council still has some areas that if addressed, will further strengthen the system of internal control. We have summarised these, along with key areas of strength, for each of the three categories of the Council's 'system of internal control' below.

Governance

In 2007/08 we reviewed the Council's governance arrangements by comparing them with the six principles of the CIPFA SOLACE Governance Framework (Delivering Good Governance in Local Government, 2007). We found that the governance arrangements were largely in accordance with both the core and supporting principles. Although at that stage the Council had yet to update its governance code, we found that Council-wide practices already met most requirements. In November 2008, we recommended that the Code of Governance should be updated as soon as possible and communicated throughout the Council. A communications plan should be developed identifying those who need to be aware of the Code and how they will be made aware of it. This will help ensure the Code is communicated effectively throughout the Council.

Our 2008/09 governance audit built upon the the work undertaken in the previous year and reviewed the following areas:-

- A sample of directorates' action plans contained in their Annual Governance Statements (AGSs)
- Governance arrangements for the Policy and Overview Committees (POCs)
- Governance arrangements for the Scrutiny Committee.

The audit concluded that POCs were compliant with DCLG guidance and that they played an important role in influencing policy decisions and reviewing performance in directorates. Areas identified as exceptions in the Annual Governance Statement reviews were being monitored by officers, although some directorates had more action points than others. In addition, the criteria underpinning the setting of action points were unclear and were not being consistently applied across directorates.

Audits were also carried out on Governance of Individual Partnerships (substantial assurance); Members' Code of Conduct – Locally Managed Framework (high assurance); and Public Consultation - in KASS (substantial assurance). We note that further clarification is still needed to determine

'significant' and 'major' partnerships; this will be determined by the Resource Directors Group. Significant and major partnerships will be included in directorates' risk registers; and partnerships 'key' to the Council will be included in the Strategic Risk Register.

Risk Management

In 2008/09 we reviewed Council-wide risk management arrangements through interviews with a range of Managing Directors, Directors and Heads of Service Areas and by reviewing relevant documentation including risk management guidance, risk registers, risk reports and minutes of meetings.

Across directorates we found a high level of risk awareness, particularly in relation to operational risks. Interviewees were generally aware of the Council's risk management framework and adhere to its principles.

Taking into account the findings of internal audit and other external assessments, it is evident that risk is generally well managed throughout the Council. However, in accordance with the Council's commitment to continuous improvement we made a number of suggestions early in 2008/09 which we reported in last year's Annual Report, by which risk management arrangements could be strengthened, contributing to greater proactive consideration, identification and management of risk.

Since then, a risk group has been constituted, chaired by the Head of Audit and Risk and the Corporate Risk and Insurance Manager. A nominated risk champion from each directorate also attends. The purpose of the group is to ensure that good practice can be disseminated throughout the Council, as well as providing a forum to discuss risk issues and identification of where support is needed in terms of capacity and guidance. The group reports to the regular Resource Directors monthly meetings.

Regular review of risk registers and risk briefings at the Governance and Audit committee meetings have taken place during 2008/09, in addition to member risk training. Further work is underway to develop the definition of the Council's "risk appetite" and to assess aggregate risk and follow up of the actions taken is planned for 2009/10.

Internal Controls

Overall, our work has not identified significant weaknesses in the overall internal control environment. Controls are generally in place and operating effectively, however there were some exceptions noted from our reviews during the year. From our audits our main findings indicating where improvements were required included:

- During 2008/09 Internal Audit undertook some 'themed' audits of payroll including, overtime payments, and allowances. The process around overtime payments was inconsistent as there was no process to identify the correct rate for paying overtime to staff and different claim forms were in use. Employee Services Centre has now designed and implemented a universal claim form to improve this process. In addition some units were paying their staff a high level of overtime which was outside the Employment of Terms and Conditions of Service (The Blue Book), and there were concerns that staff had not formally opted out of the Working time Directive. The Director of Personnel & Development is taking action to ensure that managers are informed through the Policy Group and Joint Rewards Team of the need for effective action to monitor and control overtime and to ensure that directorates comply with the working time directive. A follow up audit has been carried out on overtime payments, however, we were unable to provide an assurance as the improvements planned need time to be implemented and embedded, therefore Internal Audit will follow this up again during 2009/10.
- Business Continuity Planning and Disaster Recovery was raised in the 2006/07 Statement of Internal Control and 2008/09 Annual Governance Statement. The Emergency Planning Team has been assigned responsibility for providing guidance on the BCP strategy, however, there is still the need to create Business Continuity Plans to ensure the continuation and restoration of the key business processes within the timescales required following an operational failure or major disaster.
- Kent Highways Services – an audit of the Works, Ordering and Asset Management System (WAMS) was carried out during 2008/09, this was a follow up to an interim audit carried out in 2007/08. The audit found

that the lack of process mapping, training and standard processes within WAMS was resulting in working practices varying at both officer and departmental levels. In particular staff were unaware of the costs that the contracting function should be charging for work undertaken, and there was no defined process to ensure that officers had challenged or reviewed a target cost prior to its acceptance. A number of recommendations have been made which will be followed up during 2009/10.

Investments in Icelandic Banks

Early in October 2008, the Icelandic banks Landsbanki, Kaupthing and Glintrir collapsed and the UK subsidiaries of the banks, Heritable and Kaupthing Singer and Friedlander went into administration. The Authority has £50.35m deposited across 3 of those institutions.

Previous internal audit work performed in 2007 and 2008 concluded that substantial assurance in the treasury management controls could be taken by the Council. One outstanding control recommendation (the implementation of which would have not changed the decision to invest in Icelandic bank deposits) had not been actioned by September 2008, however this had not been brought to the attention of senior Finance officers. The escalation policy for agreement of recommendations by auditees and the approach for follow up of implementation of actions by Internal Audit were revised with immediate effect. Forensic work was undertaken by PricewaterhouseCoopers in November 2008 to identify further opportunities to improve the control environment and external advisors Arling Close were appointed to oversee the implementation of those recommendations. Their work, currently ongoing, confirms that the treasury management function complies with best practice now being recommended by CIPFA, the Audit Commission and DCLG.

Summary of Internal Audit Reviews

Opinions	No. of Projects (Final Reports)
High	13 (23%)
Substantial	26 (46%)
Limited	4 (7%)
Minimal	5 (9%)
Not Applicable	8 (14%)
Total	56

Limited or Minimal opinions were given to:

- *Business Continuity Planning (Minimal)*
- *Empty Property Development Loans(Limited)*
- *Overtime payments (Minimal)*
- *Works and Ordering and Asset Management Systems WAMS (Minimal)*
- *Allocation of Cluster Funding (Minimal)*
- *Use of Coroners' imprest Accounts (Minimal)*
- *Criminal Record Bureau Checks – Volunteers (Minimal)*
- *Kent Downs Area of Outstanding Natural Beauty - AONB (Limited)*
- *One Office – Application Security (Limited)*
- *Review of Financial Controls in two Schools (Limited and minimal)*
- *Information Governance Review (Limited)*

- *Tribal EBS System Review (Limited)*
- *ICS Data Migration Review (Limited)*

Each of the above audits has been reported in summary to the Governance & Audit Committee during the year, with management responses to the issues and recommendations raised. Follow up audits will be carried out in for those audits that had minimal assurance.

Appendix A sets out the summary of each of the above reports for information and Appendix B list all internal audits and the overall assurance rating for them.

Anti Fraud service

23 suspected/potential irregularities were reported to Internal Audit in 2008/09 by staff or third parties. Internal Audit and/or directorate staff carried out the investigations. An analysis of the types of irregularities reported to Internal Audit is shown below.

Type of Irregularity	Number
Cash theft/loss	4
Theft/loss	3
Falsification of claims	4
Procurement/Contractors	3
Inappropriate use of Equipment /facilities	1
Financial mismanagement	6
Fraudulent cheques	2
Total	23

One case was reported to the police who prosecuted a member of staff. The member of staff received a custodial sentence.

As part of Internal Audit's anti fraud strategy, we have carried out a random selection of checks on staff expense forms. No fraudulent claims were identified, although some issues were identified regarding the completion of claims, and the relevant managers were informed of this. In 2009/10 we will continue to carry out random checks and will include checks on Members' claims. This is at the request of the Standards Committee. In addition, using an interrogation tool we will target specific claims for review, for example claims for high mileage/expenses. We will also review procurement practices in a sample of areas to provide assurance that potential of fraud is minimised.

Internal Audit has published two editions of Irregular Happenings which highlights 'scams' that staff should be aware of, as well as detailing information where staff have been subject to disciplinary or criminal procedures as a result of irregularities committed.

We have continued to deliver fraud awareness training during 2008/09. This has helped to highlight potential fraud risks to managers.

Internal Audit take part in the Audit Commission's National Fraud Initiative (NFI). Internal Audit provides a number of data sets to the Audit Commission. The Audit Commission match the data with other data sets for example benefits, people employed by more than one local authority etc. Any 'matches' (eg to a person receiving a benefit and on the payroll system) is flagged in a report that is returned to Internal Audit for checking. In addition, Internal Audit works closely with other local authorities who have matches to KCC data sets. This work is ongoing and will continue during 2009/10.

Liaison with External Audit

We have continued to work very closely with the External Auditors and have developed a very good working relationship with them. This has been reinforced by the creation of an agreed protocol between Internal and External Audit. The External Auditors have carried out a triennial review of Internal Audit which was reported to the March 2009 Governance & Audit Committee. They have, as appropriate, relied upon our audit work as part of their external audit of the Council.

Self Assessment

Each year Internal Audit carries out a self assessment using the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Internal Audit. The Code is divided into 11 sections and covers the expected standards to which Internal Audit should be working.

The completed checklist is some 30 pages long and is available upon request. The majority of the self assessment identified compliance with the Code of Practice. Inevitably there were a few exceptions highlighted through the self assessment process and these are summarised as follows:

- Where internal audit staff have been consulted during system, policy or procedure development, they are not always precluded from reviewing and making comments during routine or future audits. There has to be a balance between meeting the auditee's requirements to field knowledgeable staff and maintaining a fresh perspective. As a safeguard, the audit opinion is always reviewed by an independent manager prior to release
- In order to maintain their objectivity, the issue of staff rotation was last considered in March 2007. Some staff are deployed across the Section to carry out work and therefore do tend to be rotated, (on audits such as year end and accounts payable). In other cases, it is helpful to ensure continuity to make best use of audit and clients' time. Hence there was no rotation of senior staff
- Although the Head of Audit and Risk has not met privately with the Governance and Audit Committee in 2008/09, the arrangement to do so does exist. In addition, the chair's briefings in advance of each audit committee meeting provide a less formal environment for discussion between internal audit and Members
- The Head of Audit and Risk has not sought to establish a dialogue with regulatory and inspection agencies that interact with the Council. In practice, responsibility for liaison of this nature falls to the Audit Commission in their capacity as Comprehensive Area

Assessment Lead

- The Head of Audit and Risk has defined a standard for audit documentation and working papers. There are no independent quality reviews undertaken to monitor adherence with this standard. However, manager review processes on individual assignment are designed to ensure compliance with the standard.
- Terms of reference do not include details of the circulation of the particular audit report to which they relate. This is not considered necessary as a distribution list is included in the report. It may not be obvious at the terms of reference stage who all of the recipients will be.

Internal Audit Charter

Each year the Internal Audit Charter is reviewed to ensure that it is up to date and meets the needs of the Council. The Charter was last amended in 2007. Following the triennial review by the External Auditors and Internal Audit's self assessment, a section has been added to the Charter regarding the assessment of available resources to enable the annual plan to be completed. The Charter can be seen at Appendix D.

2008/09 Acknowledgements

We are grateful for the assistance and cooperation provided by the Council's staff during the course of our work. This has been much appreciated, in particular, the ongoing assistance and support of the Governance and Audit Committee.

II. Scope, responsibility and assurance

Scope

We prepared our internal audit plan based upon a variety of key factors including:

- Evaluation of the Council's risks using risk registers and the risk mapping exercise
- Review of existing key data, for example:
 - The Council's overall strategy
 - Budgetary information
 - Departmental business plans
 - Best Value performance plans
 - Audit Commission's requirements
- Interviews with senior management across the Council.

Responsibilities of management and of internal auditors

It is management's responsibility to maintain systems of risk management, internal control and governance. Internal audit is an element of the internal control framework established by management to examine, evaluate and report on accounting and other controls over operations. Internal audit assists management in the effective discharge of its responsibilities and

functions by examining and evaluating controls. Internal auditors cannot be held responsible for internal control failures.

Whilst we have planned our work so that we have a reasonable expectation of detecting significant control weakness, internal audit procedures alone do not guarantee that fraud will be detected. Accordingly, our examinations as internal auditors should not be relied upon solely to disclose fraud, defalcations or other irregularities, which may exist, unless we are requested to carry out a special investigation for such activities in a particular area.

Internal audit's role includes assessing the adequacy of the internal control environment put in place by management and performing testing on a sample of transactions to ensure those controls were operating for the period under review. We have met with each of the Managing Directors and their team, seeking specific feedback on the adequacy of the internal audit service and identifying future directorate risk areas arising through their service planning process.

Our comments and assessments made in this report are based upon the results of our internal audits undertaken in accordance with the agreed Audit Plan.

It should be noted that the assurance expressed within this report can never be absolute. It is not a guarantee that all aspects of control are adequate. The most that internal auditors can provide to the S151 Officer and the Governance and Audit Committee is a reasonable assurance based on the work performed.

Appendix A - Summary of individual internal audit projects (limited or minimal assurance)

Business Continuity Planning

Scope

The objective of this audit was to assess the Council's business continuity planning arrangements.

Overall Assessment (Final) – Minimal

A Continuity of Business (CoB) Manual was created in 2004 by the /emergency Planning team to serve as a template for the CoB for directorates. Not all directorates have developed their own CoBs and there is a risk that a lack of clear guidance, communication and understanding of roles and responsibilities means that the Council may not be able to restore key and or critical processes within the timescales required in the event of a disaster.

Recommendations have been made which have been accepted by management and an action plan is in place to address the issues identified.

Empty Property Development Loans

Scope

The objective of the audit was to review the process for approving and allocating loans to renovate empty properties in Kent.

Overall Assessment (Draft) – Limited

To enable empty properties to be used for affordable housing, KCC loans funds to suitable applicants to enable the properties to be renovated and either rented or sold, thus reducing the number of empty properties and increasing the available housing.

The audit found that there were processes in place to ensure that loans were only made to appropriate applicants. KCC has an agreement with the district councils for checking applicants and this arrangement is working well

However, there was no process in place to formalise what action should be taken if the applicant defaults on their loan.

Recommendations have been made which have been accepted by management and an action plan is in place to address the issues identified.

Overtime Payments

Scope

The objective of the audit was to review how overtime payments are monitored and controlled and to ensure that processes and controls are in place and are working effectively

Overall Assessment (Final) – Minimal

The audit found that there was a lack of adequate control on overtime payments from the initial approval through to the final payment.

Payments are also being made which appears to be outside of the Kent County Council Scheme and Conditions of Employment (The Blue Book). Some members of staff are regularly working overtime and the requirements of the Working Time Regulations are not properly monitored in some cases and the discretionary opt-out arrangements available have not been put in place.

Management have agreed with the findings and developed an action plan to address the issues identified. A follow up audit has taken place and although a number of the recommendations have been implemented, some of the agreed action will need to be implemented over a long term. We have therefore not given an opinion for this audit, but will carry out another follow up audit in 2009/10.

Works Orders and Asset Management System - WAMS

Scope

A review of Works Orders and Asset Management System to identify if the system supports the information, ordering and payment process to support the Kent Highways Service Alliance Partnership.

Overall Assessment (Final) – Minimal

The audit found that there are no controls to ensure that work that has been paid for has been carried out. The current processes allows the potential for additional costs to be charged to KCC with no check to ensure that this is appropriate. In addition the lack of process mapping, training and therefore standard processes within WAMS is resulting in working practices varying at both officer and departmental levels

Management have agreed with the findings and developed an appropriate action plan to address the issues identified.

Allocation of Cluster Funding

Scope

The audit reviewed the processes in place for allocating funding to the schools' 'clusters' for spending in line with specific objectives

Overall Assessment (Final) – Minimal

The audit found that of the six clusters reviewed, there were no documented plans or strategy in place for the medium term that would allow the cluster to plan for longer term project delivery to address important, longer term issues within the cluster.

The monitoring of objectives achieved by recipients of funding was found to be weak across the six clusters reviewed, with some clusters having very few or even no controls in place to ensure that a follow up is undertaken to review outcomes. Schools were frequently given funding with no documented conditions in place to ensure schools knew from the outset of the necessity to effectively use funding within set periods, on specific types of expenditure and of the requirement to report on the outcomes achieved out of the funding.

The audit also found that there were instances where funding that had been reported

as being spent, had not been. It was either being held in school reserves or in some cases with external suppliers to deliver services at a later date. This practice is contrary to CFE's Financial Procedures regarding payments of goods and services.

Management have agreed with the findings and developed an appropriate action plan to address the issues identified.

Use of Coroners' Imprest Accounts

Scope

The objective of this audit was to review the use of the imprest accounts and the monitoring, reconciliation and reimbursements carried out on the accounts.

Overall Assessment (Final) – Minimal

The use of the imprest accounts by the Coroners does not comply with KCC financial regulations, however the guidelines issued to Coroners prior to the start of the audit were non specific to the Coroners.

Coroners were not clear as to what could and shouldn't be paid through the imprest accounts. In addition there was often no documentation to substantiate payments being made.

Management have agreed with the findings and developed an appropriate action plan to address the issues identified.

Criminal Records Checks for Volunteers (KASS)

Scope

To review processes and controls to ensure that agency staff and volunteers have the appropriate CRB checks if working with vulnerable service users.

Overall Assessment (Final) – Minimal

This audit included a review of CRB checks for agency staff the audit found that agency staff had the appropriate CRB disclosures. However, staff were unclear regarding the responsibility for ensuring volunteers (who work with vulnerable service users) had the appropriate disclosures. We found there were a number of volunteers who did not have the appropriate disclosures.

Management have agreed with the findings and developed an appropriate action plan to address the issues identified.

Kent Downs Area of Outstanding Natural beauty (AONB) Financial Controls

Scope

An audit to review the financial controls at the request of the Director of Kent Downs AONB.

Overall Assessment (Final) – Limited

Key areas requiring improvement included/implementation:

The need to introduce a division of duties between placing orders, checking deliveries, making payments, maintaining records and reconciling the account to the records produced from Oracle, and the preparation of any returns.

- The need to develop an appropriate system for ordering, recording and evidencing purchases
- The development of an asset register to record the Unit's assets.

Management has agreed with the findings and have developed an appropriate action plan to address the issues identified.

One Office – System Security Review

Scope

The objective of this audit was to review One Office application security controls, focussing on users' access rights and segregations of duties.

Overall Assessment (Draft) – Limited

The One Office system is used by Kent Commercial Services (KCS) to manage the sales process for the educational and office supplies it provides, including warehouse management, stock movement management, and order processing.

Formal policies and procedures for problem management (problems / issues), or managing the roll-out of changes to OneOffice are not in place, although these are in the process of being developed. Furthermore, the system backup and disaster recovery procedures also need to be documented, to ensure all of the information required during the recovery of OneOffice is available in the event of system disruption. Areas were also identified where the access controls over OneOffice can be improved, to reduce the risk of unauthorised users gaining access to the information held, or segregations of duties being breached and unauthorised transactions being processed.

Recommendations have been made which are to be discussed with management, to enable an action plan to be put in place

Review of Financial Controls in Schools

Scope

To provide assurance on the systems of financial controls in two schools.

Overall Assessment (Final) – Limited and Minimal

The two audits took place at the request of the schools to provide assurance on their system of financial controls. A number of issues were found at both schools including non compliance with procedures which exposes the schools to the risk of loss and fraud.

Management have agreed with the findings and developed an appropriate action plan to address the issues identified.

Information Governance

Scope

To provide assurance on the governance arrangements for ensuring that data owned by the Council is classified, held securely and is disposed of correctly and securely.

Overall Assessment – (Draft) Limited

There was evidence that there is a drive within KCC for appropriate provision of Information governance authority wide. This is evident from the appointment of experienced Information governance leads and Co ordinators in each directorate. However, the audit found that there was no clear Information Governance Lead at corporate level to set the tone across the Council. A Senior Information Risk Owner (SIRO) has now been identified. Protocols need to be established for the extraction, sharing, disclosure and disposal of information, both internally and externally. The legacy information classification policy that the Council has in place needs to be updated to reflect the risks that are now faced and communicated to staff.

Recommendations have been made which are to be discussed with management to enable an action plan to be put in place.

Tribal EBS system

Scope

To review key areas within the Tribal contract and service level agreement and the controls over the security and operation of the EBS system.

Overall Assessment – (Draft) Limited

The Tribal EBS system is a web-based student record and management system used by Kent Adult Education Services (KAES) to facilitate the provision, and collection of payments for educational courses.

The audit found that the service level agreement between KAES and Tribal has not been formally agreed, although a draft agreement is in place. This could make it difficult for KAES to receive the service credits due of the provision of services by Tribal. Furthermore, areas were identified where the security of the EBS system can be improved, to reduce the risk of unauthorised users gaining access to the information held.

Recommendations have been made which are to be discussed with management, to enable an action plan to be put in place.

ICS Data Migration

Scope

To review the controls in place for migrating data from the Swift system to the Integrated Children's Service (ICS).

Overall Assessment (Final) – Limited

The reporting on the delivery of Integrated Children's Services became a national requirement in January 2006. KCC was initially going to use a module within Swift but it was determined that the application did not meet the business requirements. There was therefore, the need to migrate data held on Swift to a new ICS and Fostering and Adoption (FA) System. There were issues identified, for example there were not always formally defined data quality, data cleansing and data migration objectives. However, as this review took place after the migration of data had occurred, it was not possible to implement any recommendations for this particular migration. However, recommendations have been made which management have agreed will be applied to future projects of this nature.

Assurance Definitions

Limited Assurance

The area/system is exposed to risks that could lead to failure to achieve the objectives of the area/system under review e.g., error, loss, fraud/impropriety or damage to reputation. This is because, key controls exist but they are not applied, Or there is significant evidence that they are not applied consistently and effectively.

Minimal Assurance

The Council and/or service is exposed to a significant risk that could lead to failure to achieve key authority/service objectives, major loss/error, fraud/impropriety or damage to reputation. This is because key controls do not exist with the absence of at least one critical control, or there is evidence that there is significant non-compliance with key controls

Appendix B - Detailed Analysis of internal audit projects in 2008/2009

Project – Directorate	Progress at May 2009	Overall Assessment	Project – Directorate	Progress at May 2009	Overall Assessment
Council Wide			Chief Executive's Department		
Corporate Governance Health Check	Completed	High	Fixed Assets (07/08)	Completed	Substantial
Risk Management Framework	Completed	Substantial	Oracle Review – Segregation of Duties	Completed	Substantial
ICT Governance	Completed	Substantial	Network Security	Completed	Substantial
ICT Risk Assessment	Completed	N/A	Overtime Payments	Completed	Minimal
Corporate Governance	Work in progress		Accounts Receivable (07/08)	Completed	Substantial
Risk Management	Work in progress		Oracle Review – HRMS, Payroll and iProcurement	Draft	N/A
Governance of Individual Partnerships	Completed	Substantial	Unix Operating System Security	Work in progress	
Contract monitoring and tendering process	Work in progress		Year End Accounting	Completed	Substantial
Access to Information	Completed	Substantial	Bank reconciliations	Completed	High
Information Governance	Draft	Limited	Schools Payroll	Completed	Substantial
Third Party ICT Procurement	Work in progress		Local Area Agreement Certification	Completed	N/A
Business Continuity Planning	Completed	Minimal	Fixed Assets (08/09)	Draft	Substantial
Public Service Agreement Certification	Completed	N/A	Accounts Payable	Completed	Substantial
			Accounts Receivable	Completed	Substantial
			Payroll Allowances	Completed	Substantial

Project – Directorate	Progress at May 2009	Overall Assessment	Project – Directorate	Progress at May 2009	Overall Assessment
Chief Executive's Department (continued)			Children Families and Education		
Insurance Fund	Completed	High	Allocation of Cluster Funding	Completed	Minimal
Kent Public Service Network (KPSN) Part 2	Completed	Substantial	Family Group Conferencing	Completed	Substantial
One Office – Application Security	Draft	Limited	School Funding	Completed	High
Members code of Conduct – Locally Managed Framework	Completed	High	Student Awards Transition Plan	Completed	High
Rebate Income	Completed	High	CRB checks non schools' staff	Completed	High
Expenditure Direct Purchases	Draft	Substantial	Effectiveness of Financial Management	Completed	Substantial
Follow Up to Overtime Payments Interim audit	Completed	N/A	Review of Financial Control in School	Completed	Limited
Energy Procurement	Completed	High	Review of Financial Control in School	Draft	Minimal
Revenue Budget Monitoring (KASS)	Completed	High	ICS Data Migration	Completed	Limited
Children Families and Education			Communities		
Allocation of Cluster Funding	Completed	Minimal	Funding for Sports Development	Completed	Substantial
Family Group Conferencing	Completed	Substantial	CRB checks for volunteers (follow up)	Completed	High
School Funding	Completed	High	Internet access in CMY establishments accessed by the public	Completed	Individual opinions for each of the units
Student Awards Transition Plan	Completed	High	Tribal EBS System	Draft	Limited
CRB checks non schools' staff	Completed	High	Use of Coroners' imprest accounts	Completed	Minimal
Effectiveness of Financial Management	Completed	Substantial	Registration Service Income	Draft	Substantial
Review of Financial Control in School	Completed	Limited	Health & Safety – direction of travel	Completed	Substantial
Review of Financial Control in School	Draft	Minimal			

Project – Directorate	Progress at May 2009	Overall Assessment	Project – Directorate	Progress at May 2009	Overall Assessment
Kent Adult Social Services			Environment & Regeneration		
Care Management Processes West Kent Area	Completed	Substantial	Works and Ordering Management System (WAMS)	Completed	Minimal
Care Management Processes East Kent Area	Completed	Substantial	Local Transport Plan	Work in progress	
Capital Projects Post completion review	Work in progress		KHS Review of Costing process	Completed	N/A not sure if we should include this
Procedures & Processes for Adult Protection	Completed	Substantial	Review of Security Arrangements at Stour Street premises	Completed	N/A
Public Involvement	Completed	Substantial	Cleaner Kent Joint Audit and VfM review	Completed	N/A
Financial Assessments	Completed	High	Policies and procedures for Health and Safety in Country Parks and Public Right of Ways	Completed	Substantial
Occupational Therapy Bureau Equipment	Work in progress		Household Waste Recycling Contracts	Completed	Substantial
Swift system Security	Completed	Substantial	Securing adequate funding to deliver business objectives	Completed	Substantial
Transitional Arrangements for LD client group form Health to Social Care	Draft	Substantial	Empty Property Development Loans	Draft	Limited
Criminal Records Bureau (CRB) Checks for Agency Staff and Volunteers	Completed	High (Agency Staff) Minimal (Volunteers)	Kent Downs Area of Outstanding Natural Beauty	Completed	Limited

Key	
High	The system/area under review is not exposed to foreseeable risk, as key controls exist and are applied consistently and effectively.
Substantial	There is some limited exposure to risk of error, loss, fraud, impropriety or damage to reputation, which can be mitigated by achievable measures. Key or compensating controls exist but there may be some inconsistency in application.
Limited	<p>The area/system is exposed to risks that could lead to failure to achieve the objectives of the area/system under review e.g., error, loss, fraud/impropriety or damage to reputation.</p> <p>This is because, key controls exist but they are not applied, Or there is significant evidence that they are not applied consistently and effectively.</p>
Minimal	<p>The Council and/or service is exposed to a significant risk that could lead to failure to achieve key authority/service objectives, major loss/error, fraud/impropriety or damage to reputation.</p> <p>This is because key controls do not exist with the absence of at least one critical control, Or there is evidence that there is significant non-compliance with key controls.</p>
Not Applicable	Internal audit advice/guidance no overall opinion provided.

Appendix C - Internal Audit Charter

Introduction:

This charter formally defines the purpose, authority and responsibility of Internal Audit within Kent County Council.

Purpose:

Internal Audit is an assurance function that primarily provides an independent and objective opinion to the organisation on the control environment comprising risk management, control and governance, by evaluating its effectiveness in achieving the organisation's objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources. Source: CIPFA Code of Practice for Internal Audit in Local Government in the UK (2006).

KCC's mission statement is, "To support service delivery by providing an independent and objective evaluation of our clients' ability to accomplish their business objectives and manage their risks effectively".

Authority:

The requirement for the Council to 'maintain an adequate and effective system of internal audit of its accounting record and its systems of internal control' is contained in the Accounts and Audit Regulations 2003 (amended 2006). This supplements the requirements of Section 151 of the Local Government Act 1972 for the Council to make arrangements for the proper administration of its financial affairs and to ensure that one of its officers has responsibility for the administration of those affairs. The council has delegated this responsibility to the Director of Finance.

Responsibility

It is the responsibility of management to establish and maintain systems of corporate governance, risk management and internal control to provide assurance that the Council's objectives are being achieved and to minimise the risk of fraud or irregularity.

Internal Audit will contribute to the corporate governance process by providing an assurance on the effectiveness of these systems of risk management and internal control, making practical recommendations for enhancements where considered necessary. Management has responsibility to implement audit recommendations or accept the risks resulting from not taking action. However, Internal Audit will consider taking matters to higher levels of management or to the Governance and Audit Committee, if it is felt that the risk should not (or need not) be borne.

Professional Standards:

KCC's Internal Audit activity will conform to standards and guidance contained in CIPFA's 'Code of Practice for Internal audit in Local government in the UK' (2006). This is structured around eleven organisational and operational standards, including minimum standards for the performance and conduct of internal auditors.

Independence and Objectivity

Internal Audit will be sufficiently independent of the activities it audits to enable auditors to perform their duties in a manner that facilitates impartial and effective professional judgements and recommendations.

The Head of Audit and Risk will have free and unrestricted access and freedom to report in his/her own name to the Director of Finance and Chairman of the Governance and Audit Committee.

In addition, Internal Audit will be responsible for determining its priorities based on an evaluation of risk. Auditable areas which are deemed to represent the most significant controls that are operating in order that KCC delivers its business objectives are identified from directorates', annual operating plans, consultation with managers and Internal Audit's experience of the directorates. These are used to determine the strategic and annual audit plans. The audit plan will be flexible enough to accommodate the needs of senior management and Members depending on the relative significance of emerging risks. The Governance and Audit Committee will approve the plan and at each of its meetings will receive reports summarising significant finding of audit work undertaken.

Internal Audit will also report to the Governance and Audit Committee, at each of its meetings, progress on the directorates' implementation of recommendations made by Internal Audit.

Objectivity will be preserved by ensuring that all members of staff are free from any conflicts of interest and do not undertake any duties that they could later be called upon to audit, including where members of staff have been involved in, for example working groups, consultancy etc.

Audit Scope

Internal Audit activity will be undertaken to provide assurance to the Director of Finance and the Governance and Audit Committee as to the adequacy and effectiveness of the Councils' systems for corporate governance, risk management and internal control. It will include:

- Reviewing the soundness, adequacy and application of financial and other management controls;
- Reviewing the extent of compliance with, relevance and financial impact on strategic and operational goals of established policies, plans and procedures;
- Reviewing the extent to which the organisation's assets and interests are accounted for and safeguarded from losses arising from:
 - Fraud and other offences
 - Waste, extravagance and inefficient administration, poor value for money and other causes

- Reviewing the suitability and reliability of financial and other management data developed within the organisation
- Reviewing awareness of risk and its control and providing advice to management on risk mitigation and internal control in financial or operational areas where new systems are being developed or where improvements are sought in the efficiency of existing systems
- Promote and raise fraud awareness

Internal Audit is not relieved of its responsibilities in areas of the Council's business that are subject to review by others but will assess the extent to which it can rely upon the work of others and co-ordinate its audit planning with the plans of such review agencies.

The Head of Audit and Risk will provide an annual audit opinion as to the adequacy of the Councils internal controls and risk management processes. This will be used to support the Statement of Internal Control.

Fraud and Irregularity

Internal Audit does not have to investigate all cases of potential frauds and irregularities, however they must all be reported to the Head of Audit and Risk or the Senior Audit Manager. Internal Audit will report to the Governance and Audit Committee at the conclusion of each investigation, a summary of the fraud/irregularity, control weaknesses and the outcome. If a significant fraud or irregularity is identified this will be brought to the attention of the Chairman of the Governance and Audit Committee at the time of the investigation.

Right of Access

To fulfil its objectives, Internal Audit will be granted unrestricted access to all staff, Members records (documentary and electronic), assets and premises, deemed necessary in the course of its duties.

Internal Audit Resources

An internal audit plan is developed annually which takes into account the work that is needed to enable the Head of Audit and Risk to provide an assurance on the control environment and governance across the Council. To ensure that there are adequate Internal Audit resources available to deliver the plan, an assessment is made to determine the number of staff days available; and to identify the knowledge and experience of staff to ensure that Internal Audit has the right skills mix to deliver the plan.

Review of the Effectiveness of the System of Internal Audit

In accordance with the Accounts and Audit Regulations (2006), there is a requirement for an annual review of the effectiveness of the system of internal audit, this is also part of the wider annual review of the effectiveness of the system of internal control. The Head of Audit and Risk will carry out an annual review of the Internal Audit function which will be reported to the Governance and Audit Committee to enable it to consider the findings of the review. In addition, the Head of Audit and Risk will arrange for an independent review to be carried out, at least every three/five years which will be reported to the Governance and Audit Committee.